



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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December 1, 2010

TO: Supervisor Gloria Molina, Chair
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **DEPARTMENT OF CORONER SKELETONS IN THE CLOSET GIFT
SHOP – FOLLOW-UP REVIEW OF RECOMMENDATIONS IN THE MAY
6, 2002 FISCAL REVIEW REPORT**

We have completed a follow-up review of some of the recommendations from our May 6, 2002 fiscal audit report of the Department of Coroner (Coroner or Department). The original audit report had 63 recommendations and covered the Department's internal controls and compliance with County fiscal policies including revenue/cash, expenditures, procurement, Skeletons in the Closet gift shop (Skeletons or Store), etc. Based on our annual audit plan, and to ensure that County resources were being used efficiently, this follow-up review focused on the eight recommendations related to Skeletons.

Skeletons sells novelty clothes and gifts, such as mugs, key chains and videos. Skeletons has a physical store in the Coroner's office building and sells merchandise through the Internet and a mail order catalog. The gift shop was established in 1993, primarily to raise funds to offset the cost of the Coroner's Youthful Drunk Driver Visitation Program (YDDVP). YDDVP is a program which attempts to reduce youthful drunk driving by showing participants the impact of drinking and driving. Skeletons had total sales of approximately \$151,000 in 2009, \$36,000 of which was sold through Skeletons' Internet site.

Summary of Findings

Our review indicates that the Coroner has fully implemented one and partially implemented seven of the eight recommendations from our prior report related to the Store. We also determined that Skeletons is not achieving its intended purpose of offsetting YDDVP costs. On the contrary, it appears the Store has been operating at a deficit, requiring the Coroner to use YDDVP funds to cover Skeletons' expenditures. According to Coroner's records, Skeletons had a negative cash balance of \$216,000 as of June 30, 2009. This is a cumulative deficit since the Store opened in 1993. Per Coroner management, the negative cash balance had decreased to \$171,000 as of June 30, 2010. Our original May 2002 report also noted that the Store was operating at a loss.

In this report, we made seven new recommendations including Coroner management evaluating why Skeletons continues to operate at a loss, and clarifying the Store's purpose, which Coroner management indicated is no longer to offset YDDVP costs, but to enhance the Department's public image. Coroner also needs to establish a separate fund for Skeletons, use trust funds only for their intended purpose and deposit unrestricted donations directly to the General Fund. Coroner should also implement the seven recommendations from our 2002 review that we noted had only been partially implemented.

Subsequent to our follow-up review, Coroner management indicated the Department has taken action to implement some of our recommendations. For example, Coroner has improved controls over Skeletons merchandise inventory and has removed the reference to offsetting YDDVP costs from Store related materials.

Details of the status of our prior recommendations are discussed below.

Status of Prior Audit (5/6/2002) Recommendations and New Recommendations

Prior Recommendation 62

Coroner management measure Skeletons' profit or loss at least semi-annually and take appropriate actions to ensure a profit.

Current Status: PARTIALLY IMPLEMENTED

In our 2002 report, we noted that Coroner management did not periodically measure Skeletons' profit or loss. Our analysis at that time indicated that the Store lost approximately \$100,000 in fiscal year 2000-01.

Our follow-up review disclosed that Coroner management still does not periodically evaluate Skeletons' profit or loss. Coroner has been monitoring the Skeletons' account balance by tracking sales and expenditures as they occur. However, Coroner needs to

ensure they include changes in inventory to calculate the Store's profit or loss, because changes in inventory can affect reported profit. We noted the new Store manager had recently developed strategic marketing plans to improve the Store's profitability. However, Coroner needs to measure the Store's profit or loss to assess the effectiveness of the marketing plans.

We calculated the Store's profit or loss from January 2007 to July 2008 and noted that, based on the Store's records, Skeletons had a loss of approximately \$87,000. According to Coroner management, Skeletons' primary expenditures are for merchandise and supplies, and the Store clerk's salary. Skeletons does not pay overhead costs, such as rent, utilities or insurance so it appears it should not have been operating at a loss. As noted in the status of Recommendation 60 below, Skeletons did not keep perpetual inventory records for at least two years, until approximately one month prior to our review. It is possible that undetected inventory losses or unrecorded gifts of merchandise may have contributed to the loss.

We also noted that the Coroner temporarily used some YDDVP funds to cover Skeletons' expenditures. This is contrary to the purpose of the Store noted on Coroner's website, which is to raise money to offset YDDVP costs. Coroner management should take action to ensure Skeletons operates at a profit. In addition, Coroner management indicated the Store's purpose has changed and is no longer to offset YDDVP costs, but is to enhance the Department's public image. Coroner management should clarify the Store's purpose with the Board of Supervisors and delete reference to YDDVP on all Store-related materials, so as not to mislead the Board and/or the public regarding the Store's purpose. Coroner management indicated that, subsequent to our review, the Department removed reference to YDDVP from all Store related materials.

In addition, we noted that Coroner uses one trust fund to account for Skeletons' operations, YDDVP, donations from Pacific Coast Tissue Bank and donations from speaking engagements. However, the trust fund was originally established specifically for donations from Pacific Coast Tissue Bank (PCTB). Although Coroner management indicated they have not received donations from PCTB for many years, the County Fiscal Manual requires that trust funds only be used for the purpose for which they are established. In addition, using the same trust fund for multiple operations makes it more difficult to monitor Skeleton's profit or loss. Coroner management should establish a separate fund for Skeletons and use trust funds only for their original intended purpose. The Coroner should also establish separate trust funds for other purposes or deposit funds directly to the General Fund. For example, speaking engagement donations are unrestricted and should be deposited directly to the General Fund.

New Recommendations

Coroner management:

1. **Take action to ensure Skeletons operates at a profit.**
2. **Clarify the Store's stated purpose with the Board of Supervisors and delete reference to YDDVP on all Store-related materials.**
3. **Establish a separate fund for Skeletons and use trust funds only for their intended purpose.**
4. **Deposit unrestricted donations, such as speaking engagement donations, directly to the General Fund.**

Prior Recommendation 60

Coroner management ensure that staff conduct periodic counts of the actual inventory, compare the count to the perpetual records and investigate material discrepancies.

Current Status: PARTIALLY IMPLEMENTED

In our 2002 report, we noted that for nine of the ten items, the quantity on hand did not match Skeletons' perpetual inventory records. We recommended Coroner management ensure that staff conduct periodic inventory counts and compare the counts to the perpetual inventory records.

Our follow-up review indicates that Skeletons did not keep perpetual inventory records for at least two years. The Store started keeping inventory records again approximately one month before we started our review. Coroner management stated they have been counting the inventory at least once per year. However, without perpetual inventory records, there was no way to identify if there were any discrepancies. Coroner management indicated they started quarterly inventory counts in March 2010 and have been comparing the counts to the Store's inventory records.

The Coroner's perpetual inventory records indicate the Store's total inventory as of March 2009 was approximately \$106,000. We selected a sample of ten items and compared the quantity listed in the perpetual inventory records to the quantity on hand. We noted the quantity on hand did not agree with Skeletons perpetual inventory records for five of the ten items. While some amount of inventory loss is expected in a retail environment, Coroner needs to ensure they keep accurate inventory records.

We also noted that the Store clerk generally performs the inventory counts, sometimes with help from the Store supervisor. The Store supervisor also compares the physical inventory counts to the perpetual records, and updates the perpetual inventory records. County Fiscal Manual (CFM) Section 5.2.0 requires that the physical inventory and updating of inventory records be done by someone independent of ordering, receiving and recordkeeping. Departments should use two-person count teams. In addition,

comparing the physical inventory counts to the perpetual records should be done by someone who does not maintain the perpetual records. Coroner management indicated Coroner started using two-person teams to count inventory as of March 2010.

New Recommendation

- 5. Coroner management ensure individuals independent of the storekeeper and staff responsible for maintaining perpetual inventory records perform inventory counts, and compare the counts to perpetual inventory records. Coroner management should also use two-person teams to count inventory.**

Prior Recommendation 59

Coroner management assign a unique product number to each item.

Current Status: PARTIALLY IMPLEMENTED

As noted earlier, our 2002 report indicated that the actual quantity on hand did not match the Coroner's perpetual inventory records for nine of ten items. Coroner management stated that the perpetual inventory system was still being developed at the time of our initial review. Items did not have a unique product number and were inventoried based on their description. To improve the accuracy of the perpetual inventory, we recommended that Coroner management assign a unique number to each item.

During our follow-up review, we noted that Coroner has assigned a unique product number to each item. However, Skeletons staff still relies on product descriptions to update the perpetual inventory records. As noted in our discussion of Recommendation 60, we noted minor inaccuracies in the Coroner's inventory records, some of which may be due to inaccurate product descriptions. To improve accuracy, Coroner management should ensure staff uses the unique product numbers to update inventory records.

Prior Recommendation 61

Coroner management discontinue giving gifts of Skeletons merchandise and gift certificates without Board approval.

Current Status: PARTIALLY IMPLEMENTED

In our 2002 report, we noted that Coroner management frequently gave Skeletons merchandise and gift certificates as gifts to departing employees and guest speakers. In a four-month period, the Department gave out approximately \$2,600 in merchandise. However, the Department did not have Board authority to make these gifts.

During our follow-up review, we noted Coroner management no longer issues gift certificates, but continues to give Store merchandise as gifts. According to Coroner's log, Skeletons gave out approximately \$4,100 in merchandise from FY 2006-07 to March 2009. While we did not review each item on Coroner's log, we noted some gifts appeared to have a legitimate business purpose based on the description in the log. For example, Coroner distributed some items as part of recruiting efforts. However, some gifts did not appear to have an appropriate business purpose, such as \$154 worth of Store merchandise used for Department holiday parties. Coroner management should ensure all items taken from the Store are used for Board-approved business purposes.

We also noted that Coroner accounted for the items taken from the Store as an expense of the Store. In addition to overstating Store expenditures, this practice circumvents the budgetary process, since Store expenditures are recorded in a trust fund and are not budgeted. Coroner should transfer the cost of items taken from the Store to the appropriate expenditure category (e.g., recruiting or incidental expense).

New Recommendation

- 6. Coroner management transfer the cost of items taken from the Store for gifts or donations to the appropriate expenditure category.**

Prior Recommendation 58

Coroner management require that mail containing payments be opened and recorded by two employees.

Current Status: PARTIALLY IMPLEMENTED

In our 2002 report, we noted that a single clerk opened mail at the Skeletons store. The clerk did not prepare a list of payments received in the mail, so no comparison was made between payments received and the amount deposited. This could result in mail payments being lost and never being deposited.

Our follow-up review indicates that Skeletons no longer receives mail payments directly at the Store. All mail is processed in a central mail room. However, we noted that a single mail clerk still opens the mail in the mail room, and the clerk does not make a list of payments received. Although the clerk gives mail containing payments to a cashier who makes a list of all payments, the cashier's list is not reconciled to deposits. As a result, payments received in the mail could still be lost. This is especially important because some checks do not have a payee written on them, as was the case for one check received on the day we observed the clerk opening the mail.

Coroner management should ensure mail is opened in the presence of two individuals who prepare a list of payments received. The list should then be reconciled to deposits to ensure all mail payments received are deposited and accounted for.

Prior Recommendation 56

Coroner management ensure all checks are endorsed upon receipt.

Current Status: PARTIALLY IMPLEMENTED

CFM Sections 1.3.3 and 1.3.6 require that all checks be endorsed upon receipt. In our prior report, we noted that checks received at Skeletons were not restrictively endorsed until the end of the day.

Our follow up indicates Skeletons staff restrictively endorses checks received over the counter upon receipt. However, the mail room clerk does not endorse checks received through the mail. The clerk takes the checks to a cashier, who endorses all checks, except checks received for Skeletons. The cashier returns the checks to the mail clerk for distribution to the appropriate section. The Skeletons clerk picks up the unendorsed checks for the Store from the mail room, ensures the merchandise ordered is available and then endorses the checks. If the merchandise is not available, Skeletons returns the unendorsed check to the sender. Coroner management should ensure staff immediately endorse all checks upon receipt, including checks received through the mail for the Skeletons store.

During our follow-up review, we also noted that the Store's cash drawer does not have a lock. CFM Section 1.1.4 requires that adequate physical security be maintained at all times over cash.

New Recommendation

- 7. Coroner management ensure adequate security is maintained over cash.**

Prior Recommendation 57

Coroner management use a cash register to record over-the-counter collections.

Current Status: PARTIALLY IMPLEMENTED

In our 2002 report, we noted that the Skeletons store clerk used handwritten receipts to record over-the-counter collections. CFM Section 1.3.3 states that cash registers should be used in high volume areas.

During our follow up, we noted that the Skeletons store clerk still uses handwritten receipts. Skeletons has had a cash register for approximately two years, but the Store supervisor indicated it has not been used at the Store due to difficulties in using it for credit card transactions. Coroner is evaluating whether it would be more cost effective to correct the technical difficulties or buy a new register.

Prior Recommendation 63

Coroner management establish controls to monitor visitor activity or consider relocating Skeletons in the Closet to a location that does not compromise building security.

Current Status: IMPLEMENTED

In our prior report, we noted that Skeletons was located on the second floor of the Coroner administration building. Access to the building was supposed to be limited and visitors were required to show identification and/or explain the purpose of their visit. However, anyone who said they were going to the gift shop was given access to the building and allowed to travel unescorted to the second floor, which could have resulted in a breach of security.

Skeletons relocated to the first floor of the old administration building approximately two years ago, in an area open to the public.

Acknowledgment

We discussed our report with Coroner management. Coroner's attached response indicates agreement with the results of our review and our recommendations for corrective action.

We thank Coroner management and staff for their cooperation and assistance during this review. Please call me if you have any questions, or your staff may contact Terri Kasman at (213) 253-0103.

WLW:MMO:JLS:TK

Attachment

c: William T Fujioka, Chief Executive Officer
Anthony T. Hernandez, Director, Department of Coroner
Public Information Office
Audit Committee



"Enriching Lives"

Anthony T. Hernandez
Director

COUNTY OF LOS ANGELES

DEPARTMENT OF CORONER
1104 N. MISSION RD., LOS ANGELES, CALIFORNIA 90033



Lakshmanan Sathyavagiswaran, MD
Chief Medical Examiner-Coroner

September 23, 2010

TO: Wendy L. Watanabe
Auditor-Controller

FROM: Anthony T. Hernandez
Director



SUBJECT: CORONER FISCAL AUDIT REVIEW RESPONSE

Attached is the Coroner response to the 2009 Fiscal Audit Review performed by your office.

We wish to thank your staff for the guidance and professionalism afforded our Department during this process. Your efforts in conducting the review in a fair and accurate manner are appreciated.

If you have any questions please feel free to contact me or Dr. Lakshmanan directly, or your staff may contact Sarah Ahonima at (323) 343-0784.

Attachment

Accreditations:

*National Association of Medical Examiners
California Medical Association-Continuing Medical Education
Accreditation Council for Graduate Medical Education*

*American Society of Crime Laboratory Directors/LAB
Peace Officer Standards and Training Certified*

Law and Science Serving the Community

**DEPARTMENT OF CORONER
RESPONSE TO 2009 FISCAL AUDIT REVIEW
September 23, 2010**

Recommendation 62- Coroner management measure Skeletons' profit or loss at least semi-annually and take appropriate actions to ensure a profit.

The Coroner agrees with recommendation 62.

As of July 2010, the Coroner has prepared a monthly Profit/Loss Statement that accounts for beginning and ending inventory and sales. In an effort to maximize profit, the Department is using this information to monitor inventory, sales and current profit status. Additionally, this statement assists in the modification of the marketing plan as needed.

Recommendation 1 - Take action to ensure Skeletons operates at a profit.

The Coroner agrees with recommendation 1.

In an effort to maximize profit, the Department will monitor inventory and sales on a monthly basis.

As indicated, the Department has created a marketing plan for Skeletons in the Closet which was developed after studying the market for two consecutive quarters. The plan involves using free online websites to promote Skeletons in the Closet. Websites identified include FaceBook, Youtube, Twitter, and others.

In September 2010, the store will be launching a new website. The new website addresses issues raised by customers, such as poor image visibility and allow for customer feedback. The new website is expected to increase traffic, sales, and interest in the store. Furthermore, the Department is looking into expanding by selling items on websites such as Amazon and eBay.

Recommendation 2 - Clarify the Store's stated purpose with the Board of Supervisors and delete reference to YDDVP on all Store-related materials.

The Coroner agrees with recommendation 2.

The purpose of Skeletons in the Closet is to promote the Department of Coroner (and the County) in a positive light and enhance the Department's public image through the sale of unique merchandise items designed to focus on the Department's mission of determining cause and manner of death. This was accomplished by utilizing a respectful and light-hearted approach in the design of merchandise and marketing delivery. This objective has been achieved successfully since the inception of the Store. Early on, the Department promoted the idea of offsetting the cost of conducting the Youthful Drunk Driving Visitation Program YDDVP. However, this became unnecessary because

YDDVP generates its own revenue, as noted in the audit findings. Nonetheless, offsetting YDDVP has long ceased to be the primary objective of the Store's existence and the Coroner will take steps to clarify this purpose with the Board of Supervisors as well as the public.

In January 2010, the Coroner launched an effort to further solidify this objective by discontinuing store items that contained the YDDVP message as well as removing the terminology from store catalogs, website, and plastic bags. Since then, the Coroner has removed reference to YDDVP from all Store related materials with exception of the Skeletons website, which will be removed once the Skeletons' new website is launched in October of 2010. Future orders of items will not contain any reference to YDDVP. The store clerk will also inform customers of the Store's clarified purpose as necessary.

Recommendation 3 - Establish a separate fund for Skeletons and use trust funds only for their intended purpose.

The Coroner agrees with recommendation 3.

The Department will work with the Auditor-Controller to establish a separate account for Skeletons in the Closet.

Recommendation 4 - Deposit unrestricted donations, such as speaking engagement donations, directly to the General Fund.

The Coroner agrees with recommendation 4.

All future unrestricted donations will be deposited directly to the General Fund.

Recommendation 60 - Coroner management ensure that staff conduct periodic counts of the actual inventory, compare the count to the perpetual records and investigate material discrepancies.

The Coroner agrees with recommendation 60.

Coroner conducts quarterly counts of actual inventory and compares it to perpetual records.

Recommendation 5 - Coroner management ensure individuals independent of the storekeeper and staff responsible for maintaining perpetual inventory records perform inventory counts, and compare the counts to perpetual inventory records. Coroner management should also use two-person teams to count inventory.

The Coroner agrees with recommendation 5.

A two-person inventory team was implemented in June 2010. This process improves the accuracy of the inventory count. Staff independent of cashier and perpetual inventory duties perform the inventory counts and reconcile against the perpetual inventory. Additional inventory methodologies include closing the store during the duration of inventory and conducting inventory in a one day period.

Recommendation 59 - Coroner management assign a unique product number to each item.

The Coroner agrees with recommendation 59.

Since July 2009, all Daily Sales Reports include unit numbers. The store supervisor now uses the unit numbers to update perpetual inventory. The new inventory system changes combined with the additional unit numbers on the Daily Sales Reports are expected to yield a higher level of accuracy in merchandise inventory.

As of February 2010, all items in the store now have an affixed sticker/tag identifying them by item name, unit number and price.

Recommendation 61 - Coroner management discontinue giving gifts of Skeletons merchandise and gift certificates without Board approval.

The Coroner agrees with recommendation 61.

The Coroner discontinued issuing gift certificates in 2002.

The Department will continue giving gifts for legitimate business purposes in accordance with County fiscal guidelines, and will obtain Board approval as required.

Recommendation 6 - Coroner management transfer the cost of items taken from the Store for gifts or donations to the appropriate expenditure category.

The Coroner agrees with recommendation 6.

All future costs of gifted items will be transferred and reflected in the appropriate expenditure categories.

Recommendation 58 - Coroner management require that mail containing payments be opened and recorded by two employees.

The Coroner agrees with recommendation 58.

The Department implemented this recommendation July 1, 2010.

Recommendation 56 – Coroner management ensure all checks are endorsed upon receipt.

The Coroner agrees with recommendation 56.

The Department will ensure that all checks are endorsed upon receipt.

Recommendation 7 - Coroner management ensure adequate security is maintained over cash.

The Coroner agrees with recommendation 7.

In January 2010, the store's cash and checks were moved from the unlocked cash drawer to a locked cash register. This method ensures security of monies and prevents unauthorized access.

Recommendation 57 - Coroner management use a cash register to record over-the-counter collections.

The Coroner agrees with recommendation 57.

The Department is continuing to work with Forensic Data Information System (FDIS) to implement the cash register in the store. All store cashiers have been trained and a Cash Register Manual has been created. Due to technical/software difficulties, the original cash register purchased for this purpose was returned to the vendor. The Coroner will implement an interim solution once the replacement cash register is received from the vendor.

Recommendation 63 – Coroner management establish controls to monitor visitor activity or consider relocating Skeletons in the Closet to a location that does not compromise building security.

The Coroner agrees with recommendation 63.

The Coroner completed this recommendation in 2007. Skeleton's in the Closet was relocated to the Old Administration Building in the Coroner Headquarters Campus.